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December 23, 2015

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo 
Auditor-Controller

**SUBJECT: DEPARTMENT OF PUBLIC WORKS – UTILITY PAYMENT
APPLICATION INVOICE PROCESSING REVIEW**

We reviewed the Department of Public Works' (DPW or Department) invoice processing controls over the Utility Payment Application (UPA or System). The System is used to pay utility costs, such as electricity, water, etc., for the Department and various Street Lighting and Waterworks Districts. In Fiscal Year 2014-15, DPW paid more than \$50 million through UPA.

The purpose of our review was to assess the Department's compliance with County Information Technology (IT) and fiscal policies and procedures. Our review focused on testing controls over payment processing, including separation of duties, the review/approval process, the submission of payments from UPA to the electronic Countywide Accounting and Purchasing System (eCAPS), and payment timeliness.

Results of Review

Based on our testwork the duties between staff who enter, approve, and reconcile payments were properly separated; invoices with significant increases in billings were properly referred for a separate detailed review of the services billed; payments issued were adequately supported; access to the UPA payment data file was appropriate; and adequate controls were in place to ensure payment data files are transferred completely and accurately from UPA to eCAPS. However, our review disclosed opportunities for DPW to improve System controls and payment processing. Specifically:

- **eCAPS Payment Approvals** - DPW needs to implement a secondary eCAPS approval, at a level of Accountant II or higher, for payments under \$5,000 as required by County Fiscal Manual (CFM) and DPW procedures. We noted that DPW did not establish their secondary approval requirement in eCAPS for payments under \$5,000. As a result, 4,087 (77%) of the 5,337 total payments processed in UPA between July 2013 and January 2015, totaling approximately \$3.34 million, were issued with only one eCAPS approval.

DPW's attached response indicates that they implemented a secondary approval for payments under \$5,000 at a level of Financial Specialist II, which meets CFM requirements.

- **Duplicate Payments** - DPW needs to ensure that staff confirm invoices were not previously paid before entering them in UPA. Using Computer Assisted Audit Techniques, we identified 11 instances over an 18-month period where DPW made a payment to the same vendor account, for the same service period, and same amount. We reviewed seven of these payments and noted that three were duplicates and resulted in approximately \$350 in overpayments. DPW management indicated that all \$350 in overpayments had been resolved and provided documentation to support that approximately \$275 in overpayments had been credited on subsequent invoices. However, they could not document a credit for the remaining \$75 overpayment.

DPW's attached response indicates that they instructed staff to verify the accuracy of invoice information and ensure invoices were not already paid prior to entering them into UPA. DPW's response also indicates that they implemented controls to detect duplicates. Subsequent to our review, DPW resolved the overpayment issue and provided documentation to support that they had received a credit for the remaining \$75 overpayment.

- **Payment Record Discrepancies** - DPW needs to remove staff's ability to delete UPA payment records, ensure changes to UPA records are authorized, and ensure changes to eCAPS payments are reflected in UPA records. We reviewed five discrepancies between UPA and eCAPS records and noted one eCAPS payment did not have a corresponding UPA invoice because staff inappropriately deleted the UPA record.

Also, four UPA invoices had a different payment amount in eCAPS because staff made authorized year-end changes to the utility payments in eCAPS, but did not appropriately adjust the corresponding UPA records. Although the invoices were properly paid, these oversights resulted in duplicate UPA records and record discrepancies between the systems.

DPW's attached response indicates that staff will not be able to delete payments and that they implemented procedures to ensure only authorized personnel can make changes to finalized UPA records. Also, the Department will establish a process to reconcile discrepancies between UPA and eCAPS.

- **Payment Timeliness** - DPW needs to ensure that vendors are paid by the invoice due date, as required by Department policy. We reviewed 39 invoices and noted that four (10%), totaling approximately \$35,600, were paid up to five months after their due date. Although DPW did not incur late fees on these payments, late payments violate Department policy and increase the risk for late fees, which we noted on other DPW utility payments.

DPW's attached response indicates that they will ensure timelier payments in the future.

Details of these and other findings and recommendations are included in Attachment I.

Acknowledgement

We discussed our report with DPW management who generally agreed with our findings. DPW's response is included as Attachment II.

We thank DPW management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS:MP

Attachments

c: Gail Farber, Director, Department of Public Works
Sachi A. Hamai, Chief Executive Officer
Public Information Office
Audit Committee

**DEPARTMENT OF PUBLIC WORKS
UTILITY PAYMENT APPLICATION INVOICE PROCESSING REVIEW**

Background

The Department of Public Works (DPW or Department) uses the Utility Payment Application (UPA or System) to track and pay utility costs, such as electricity, water, etc., for the Department and various Street Lighting and Waterworks Districts. In Fiscal Year (FY) 2014-15, DPW paid more than \$50 million through UPA with funding from various sources, including proprietary funds (\$29.8 million) that charge for services; Special District Funds (\$19.8 million) that receive funding from property assessments; Special Revenue Funds (\$1.4 million) that generate fees attached to service costs; and the County General Fund (\$19,700).

We reviewed DPW's UPA procedures and controls to assess the Department's compliance with County Information Technology (IT) and fiscal policies and procedures. Our review focused on testing controls over payment processing, including separation of duties, the review/approval process, the submission of payments from UPA to the electronic Countywide Accounting and Purchasing System (eCAPS), and payment timeliness.

Based on our testwork the duties between staff who enter, approve, and reconcile payments were properly separated; invoices with significant increases in billings were properly referred for a separate detailed review of the services billed; payments issued were adequately supported; access to the UPA payment data file was appropriate; and adequate controls were in place to ensure payment data files are transferred completely and accurately from UPA to eCAPS.

The remainder of this report discusses areas where improvement is needed.

Payment Processing

DPW staff process utility vendor invoices in UPA, which generates a request for eCAPS to issue the payments. Before the eCAPS payments are issued, DPW staff review and approve the payment request information in eCAPS.

eCAPS Payment Approval

DPW procedures require two eCAPS approvals for all payments. However, we noted that numerous UPA payments were issued by a single eCAPS approver. Specifically, six (60%) of the ten payments reviewed were processed with only one eCAPS approval. Since all six payments were under \$5,000, we reviewed the electronic payment workflow in eCAPS and noted that DPW did not establish their secondary approval requirement in eCAPS for payments under \$5,000. As a result, 4,087 (77%) of the 5,337 total payments processed in UPA between July 2013 and January 2015, totaling approximately \$3.34 million, were issued with only one eCAPS approval.

DPW management should work with the Auditor-Controller's Enterprise Systems Support Division to implement a secondary eCAPS approval, at a level of Accountant II or higher, for payments under \$5,000.

Recommendation

- 1. Department of Public Works management work with the Auditor-Controller's Enterprise Systems Support Division to implement a secondary electronic Countywide Accounting and Purchasing System approval, at a level of Accountant II or higher, for payments under \$5,000.**

Duplicate Payments

DPW payment procedures require that staff ensure invoices were not previously paid before entering them in UPA. Data entry staff also review the accuracy of one another's invoice data entry into UPA and manually sign-off on the invoice before sending a payment request to eCAPS for approval.

Using Computer Assisted Audit Techniques (CAATs), we reviewed the payments processed in UPA between July 2013 and January 2015, and identified 11 instances where DPW made a payment to the same vendor account, for the same service period, and same amount. We reviewed seven of the 11 potential duplicate payments and noted that:

- Three (43%) payments, totaling approximately \$350, were duplicates. DPW management needs to ensure invoices were not previously paid before entering them into UPA. DPW management indicated that they subsequently implemented a system control to identify payments to the same account and service period, to help prevent future duplicate payments. The new system control is beneficial, but will not detect most data entry errors as noted in the next bullet point.

Also, DPW management indicated that the \$350 in overpayments had been resolved and provided documentation to support that approximately \$275 in overpayments had been credited on subsequent invoices. However, they could not document a credit for the remaining \$75 overpayment. DPW should work with the overpaid vendor to resolve the outstanding overpayment issue.

- Four (57%) payments were not duplicates. However, they all had erroneous service periods in the System despite having the UPA reviewer's manual sign-off and the eCAPS approver's authorization confirming that each invoice was recorded accurately. As mentioned above, service period inaccuracies circumvent system controls that help identify duplicate payments.

DPW needs to ensure that staff accurately record invoice information in the System, and that the UPA reviewer and eCAPS approvers confirm the accuracy of the information before authorizing payment of the invoice. DPW should also correct the service period inaccuracies noted in our review.

Recommendations

Department of Public Works management:

- 2. Ensure invoices were not previously paid before entering them into the Utility Payment Application.**
- 3. Work with the overpaid vendor to resolve the outstanding overpayment issue.**
- 4. Ensure staff accurately record invoice information in the Utility Payment Application, and that the Utility Payment Application reviewer and electronic Countywide Accounting and Purchasing System approvers confirm the accuracy of the information before authorizing payment of the invoice.**
- 5. Correct the service period inaccuracies noted in our review.**

Payment Record Discrepancies

Using CAATs, we compared an electronic file of all UPA invoices to a corresponding electronic file of eCAPS payments, for the period of July 2013 to January 2015, and noted discrepancies between system records. Specifically, 28 transactions, totaling \$115,450, did not agree between the systems. We sampled five discrepancies and noted:

- One eCAPS payment did not have a corresponding invoice in UPA. DPW management provided hard copy documents to support that the payment was valid and indicated that staff accidentally deleted the record in the System. However, we noted that staff can change or delete finalized UPA records without review and approval, and the System does not log these changes or maintain the original transaction as required by County Fiscal Manual Section 8.9.1. This increases the risk for these types of errors and other inappropriate changes.

DPW management needs to remove staff's ability to delete UPA records, and implement procedures to ensure only authorized changes are made to UPA records. DPW should also evaluate modifying the System to log activity details and to maintain the original transaction record when changes are made.

- Four UPA invoices had a different payment amount in eCAPS. We noted that staff made authorized year-end changes to the utility payments in eCAPS, but

did not appropriately adjust the corresponding UPA records, creating record discrepancies between the systems. In three cases, staff also recorded an additional invoice in UPA, resulting in duplicate UPA records. Although all four invoices were properly paid, DPW should ensure staff properly adjust UPA records to reflect authorized changes made to payments in eCAPS.

We also noted that DPW staff do not use eCAPS reports/files, such as the eCAPS Postback file, to help reconcile the payments processed in eCAPS to the invoices recorded in UPA. DPW management should establish a process to ensure staff independent of the payment processing function reconcile eCAPS payments to UPA invoices and investigate any discrepancies.

Recommendations

Department of Public Works management:

- 6. Remove staff's ability to delete Utility Payment Application records.**
- 7. Implement procedures to ensure only authorized changes are made to Utility Payment Application records.**
- 8. Evaluate modifying the Utility Payment Application to log activity details and to maintain the original transaction record when changes are made.**
- 9. Ensure staff properly adjust Utility Payment Application records to reflect authorized changes made to payments in the electronic Countywide Accounting and Purchasing System.**
- 10. Establish a process to ensure staff independent of the payment processing function reconcile electronic Countywide Accounting and Purchasing System payments to Utility Payment Application invoices, and investigate any discrepancies.**

Payment Timeliness

We noted that DPW does not always pay vendors by the invoice due date, as required by Department policy. We reviewed 39 invoices and noted that four (10%), totaling approximately \$35,600, were paid up to five months after their due date.

DPW did not incur late fees on these payments. However, late payments violate Department policy and increase the risk for late fees, which we noted on other DPW utility payments. DPW management should ensure staff pay vendors by the invoice due date.

Recommendation

- 11. Department of Public Works management ensure staff pay vendors by the invoice due date.**



GAIL FARBER, Director

COUNTY OF LOS ANGELES
DEPARTMENT OF PUBLIC WORKS

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IN REPLY PLEASE
REFER TO FILE: **FI-2**

November 23, 2015

TO: John Naimo
Auditor-Controller

FROM: Gail Farber *Gail Farber*
Director of Public Works

RESPONSE TO UTILITY PAYMENT APPLICATION REVIEW

We reviewed your recommendations to our Utility Payment Application (UPA) system and provide the attached response. We generally concur with the findings and have either implemented or partially implemented the recommendations offered in the report.

Your assistance in creating a secondary approval for payments under \$5,000 to the payment workflow is appreciated. We will develop a control system to record changes and maintain the original transactions in the UPA. Additionally, we are establishing processes and controls to mitigate payment duplication, and to identify and correct record discrepancies.

Thank you for the opportunity to include our response in your report and for your staff's professionalism during their review.

AC:dbm

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Attach.

County of Los Angeles
Department of Public Works
Response to Findings and Recommendations
Utility Payment Application Review

eCAPS Payment Approval

Recommendation

DPW management ensures staff:

1. **Department of Public Works management work with the Auditor-Controller's Enterprise Systems Support Division to implement a secondary approval, at a level of Accountant II or higher, for payments under \$5,000.**

Response: Agree and Implemented

As of July 24, 2015, the workflow for payments under \$5,000 was modified to include a second approval, at a level of Financial Specialist II, which meets County Fiscal Manual requirements.

Duplicate Payments

Recommendations

DPW management ensures staff:

2. **Ensure invoices were not previously paid before entering them into the Utility Payment Application.**

Response: Agree and Implemented

We instructed affected staff to verify that invoices were not already paid prior to entering them into the Utility Payment Application system. Additionally, we implemented a system control on August 31, 2015, to detect duplicate vendors, accounts, and service periods.

3. **Work with the overpaid vendor to resolve the outstanding overpayment issue.**

Response: Agree and Implemented

We resolved the outstanding overpayment issue and obtained documentation of a credit for \$75 on October 1, 2015.

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Response to Findings and Recommendations
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4. **Ensure staff accurately record invoice information in the Utility Payment Application, and that the Utility Payment Application reviewer and electronic Countywide Accounting and Purchasing System approvers confirm the accuracy of the information before authorizing payment of the invoice.**

Response: Agree and Implemented

We instructed all affected staff to ensure they accurately record invoice information in the Utility Payment Application and instructed reviewers to confirm the accuracy of the payment information in electronic Countywide Accounting and Purchasing System before approving.

5. **Correct the service period inaccuracies noted in our review.**

Response: Agree and Implemented

We corrected the service period inaccuracies noted in the review on November 5, 2015.

Payment Record Discrepancies

Recommendations

DPW management ensures staff:

6. **Remove staff's ability to delete Utility Payment Application records.**

Response: Agree

We agree records should not be deleted. Staff will not be able to delete finalized Utility Payment Application records. We are modifying the system to log changes and maintain the original transactions.

Target Date: 1/31/16

7. **Implement procedures to ensure only authorized changes are made to Utility Payment Application records.**

Response: Agree and Implemented

We implemented procedures to ensure only authorized personnel can make changes to finalized Utility Payment Application records.

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Response to Findings and Recommendations
Utility Payment Application Review

8. **Evaluate modifying the Utility Payment Application to log activity details and to maintain the original transaction record when changes are made.**

Response: Agree

We will modify the system to log activity details and maintain the original transaction records when changes are made.

Target Date: 1/31/16

9. **Ensure staff properly adjust Utility Payment Application records to reflect authorized changes made to payments in the electronic Countywide Accounting and Purchasing System.**

Response: Agree and Implemented

We instructed authorized personnel to adjust Utility Payment Application records to reflect approved changes made to payments in the electronic Countywide Accounting and Purchasing System. (Please also see response to recommendation 7.)

10. **Establish a process to ensure staff independent of the payment processing function reconcile electronic Countywide Accounting and Purchasing System payments to Utility Payment Application invoices and investigate any discrepancies.**

Response: Agree

We are establishing a reconciliation process to ensure staff independent of payment processing reconcile discrepancies between Utility Payment Application and electronic Countywide Accounting and Purchasing System. Periodically, we will generate a reconciliation report for independent staff to investigate discrepancies and report errors to authorized personnel for correction.

Target Date: 1/31/16

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Response to Findings and Recommendations
Utility Payment Application Review

Payment Timeliness

Recommendation

DPW management ensures staff:

- 11. Department of Public Works management ensure staff pay vendors by the invoice due date.**

Response: Agree and Implemented

The four late payments identified all belong to the same vendor, who bills estimated charges with various credits and adjustments. This requires manual reconciliation of carryover balances with the Utility Payment Application records to determine actual balance due. This time-consuming effort may delay payment for this particular vendor.

We would like to note that the 10% of late payments reflected in the sample is not representative of our payment timeliness. Internal reports confirm that 99% of utility invoice payments are paid on time. We will ensure timelier payments, especially to this vendor, in the future.